

FLEXIBLE BUDGETS - A CHALLENGE FOR ROMANIAN COMPANIES IN THE FIELD OF TRANSPORTATION AND DISTRIBUTION OF THERMAL ENERGY

Matei Nicoleta Cristina

Romanian-American University Faculty of Internal and International Commercial and Financial-Banking Relations Bd. Dinicu Golescu, no. 41, Sc. A, Ap. 24, Sector 1, Bucharest E-mail: cristina_n_matei@yahoo.com Phone: 0722.131.874

Tole Marin

Romanian-American University Faculty of Internal and International Commercial and Financial Banking Relations Bd. Expoziției no. 1B, Sector 1, Bucharest E-mail: tole.marin@yahoo.com Phone: 0722.670.663

Stoica Ivona

Romanian-American University Faculty of Internal and International Commercial and Financial Banking Relations Bd. Expoziției no. 1B, Sector 1, Bucharest E-mail: ivonas@yahoo.com Phone: 0723.615.915

This paper presents the significance of the budgetary system for guiding the strategic planning of the activity of an economic agent, the control of performances obtained in a period of time by profit centers, and the economic unit as a whole. Given the role of budgets in the decision making process of companies and that the economic environment in which they operate is constantly changing, the use of flexible budgets would reflect better the performance obtained, yet another issue to be discussed in the present paper.

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1. The importance and the contribution of budgeting of transport costs and distribution of thermal energy to the increase of the company's economic efficiency

To obtain performance in conducting the business of transportation and distribution of thermal energy, managers of responsibility centers are expected to know the cost and expenses arising thereof. The expenses and cost of which they form, is a barometer that gives information on the conditions in which that activity takes place, which enables management to track, analyzing and targeting processes to a more rational use of economic means and resources, which requires planning and developing budgets.

By planning, the management formulates their vision for the future. Planning is a prospective action that introduces future in the present actions and which will mark the will of the trader to act on the future.

This represents an amount of data on future developments incorporated into plans.

Typically the planning is backed-up by:

- a strategic plan that deals with the overall long-term objectives (5 to 10 years);
- an operational plan which details the overall objectives for the medium term (2-5 years);
- a series of budgets which are short-term forecasts (annual and quarterly detailed on months, weeks etc.).

Budgets have been constructed to help manage the various functions of the economic unit in financial and human terms, serving in management of the respective structure by motivating and making employees more responsible.

A budget is a detailed plan expressed in quantitative units, which show how a company will obtain and use resources in a period of time. The registration in budgets of data resulting from the forecasting represents the budgeting.

The budgetary process involves:

- *Planning*, as mentioned above. Forecasting is the key to success in business, and the budget impulses to do so.

- *Authority and responsibility*. Budgeting involves specifying the responsibilities of each manager receiving a budget.

- *Communication*. The budgetary process includes all levels of management, therefore, it is an important way of communication between management at a higher level and one in an average level in terms of objectives and their implementation, and when the budget is completed, approved plans are communicated to all personnel involved.

- *Control*. It involves comparing the results with the forecasted ones and reporting irregularities.

- *Motivation*. Management performance is measured according to the degree of meeting the targets set out in budgets; therefore the managers are motivated to engage in their development and establishment.

Budgeting, recording and calculating the costs of production generated by the supply of thermal energy per cost centers promote the principle of responsibility in domestic economic management.

The calculation object in the report to determine the actual cost is the activities of transportation and distribution, and within them, gigacalorie thus, the management accounting and cost calculation are organized on responsibility centers, namely, on cost centers.

Depending on the establishment, cost centers consist of two types: operational and functional.

Operational cost centers run operations related to technological activities of transportation and distribution of thermal energy, so it is an activity that can be quantitatively and qualitatively measured accurately.

Functional cost centers are those which run activities related to the organization, management and administration. The activity of functional cost centers may not always be measured quantitatively, sometimes it can be appreciated only qualitative, and the calculating of the costs generated by them is not identified on gigacalorie, as in the case of operational centers.

Regarding the administrative segment, detailing cost centers per services provides better information on costs of general administration, which increases the efficiency of budgetary control and decision-making by managers.

Budgeting costs per cost centers should so organized as to ensure their demarcation and location as accurately as possible during the preparation of pre-calculations, revenue and expenditure budget, tracking deviations of actual expenditure from the budgetary ones and more accurate calculation of effective cost for transportation and distribution of thermal energy.

Tracking the economic activity of a company per cost centers is highly significant provided that the normal operation of such a complex economic organism implies a precise determination of the place, role and duties incumbent on each compartment in the total budgeted objectives.

The budget method is considered by practitioners as one which helps the most the informational and decision-making process in activities which require a profound control of correlations that lead to profitability.

Budget can be defined generally as a “forecast of all revenue and expenditure”. Thus, the budget is:

- *allocation of objectives and means*;

A policy to a certain level defined by set purposes and means. The link between goals and means is very close, because such goals can be achieved only through the use of appropriate means.

- *a micro-economic balance*;

The budget is the challenge of a range of revenue and a series of expenses which must be in a permanent balance to ensure the financial resources needed to achieve forecasted goals and actions for a period of management.

The balance to be achieved cannot be obtained always at the level of a financial year, because the investment programs are carried out over several years, therefore the financial balance depends on dynamics, the development degree and success of the company.

- *allocation of responsibilities*;

Each leader of a center of responsibility, when purposes and means established in their charge, will be assigned with a corresponding responsibility. Achieving fewer objectives than the ones assigned will not take place using more means than established.

- a reflection of economic development;

The revenue and expenditure budget reflects the economic evolution of the company, providing information on business changes, price changes and economic situation.

- an economic model;

A model is a simplified representation of a whole. At economic level, it is also a mathematical and accounting model, in other words, is a schematic representation of a realities expressed monetary. The management of the activity for the transportation and distribution of thermal energy through coordination, monitoring and regulation aims at achieving the optimum pre-established parameters. The management assumes, in essence, the ability to decide. A decision is correctly directed only on the basis of the information arising from the analysis of technical, organizational and economic factors, effects and causes which they generate.

The budget fulfills several functions, such as:

- *prediction function* - based on the fact that the budget is the financial estimation of levels of resources, funds and expenditures for all activities taking place within a company;

- *control function* - is when expenses are performed and calculated, revenue is obtained as results of its own activities and needed funds are established. This function is exercised by tracking and analyzing the implementation of the budget, which provides: knowing how to implement the tasks set, the deviations, determining the causes that have generated these deviations; compartments which must act to improve the business etc.;

- *ensuring function of the financial balance* - the budget is used for routing and mastering the balance relations between expenditure and revenue. On the level of an economic agent, the financial balance reflects the financial resources needed to achieve forecasted goals and actions, respectively, the fulfillment of financial obligations.

Budgets go further than a forecast of possibility. They do not characterize the most likely possibility, but the most desirable possibility. This is a formalized voluntarism which reinforces self-constraint and simultaneously makes of it a collective agreement which coordinates the company business. This formalization will allow the fulfillment of budgetary control.

The budgetary control is among the tracking systems of the performance of economic entities, the notion of performance meaning the degree to which a budget responsible achieves their objectives.

A procedure of budgetary control concerns the comparison of the actual situation, namely results from activity, with the estimate situation, namely desirable objectives of the company for their transportation and distribution activities. Thus, the budgetary control task is to identify and explain deviations from the budget provisions.

To serve the management, the budgetary control is performed frequently enough, in order to take corrective measures in due time, and sufficiently decentralized to be located at the level where corrective decisions are taken and responsibilities are exercised.

In the process of budgetary control in companies which carry out transportation and distribution of thermal heat, the management controller is involved, who performs the control of the budget, i.e. the controlled person who must justify budget deviations.

The budgetary control of such companies is done monthly and meets two objectives:

- the control of budget execution, by identifying positive or negative deviations from the budget provisions - in this case the management controller carries out an analysis of past deeds;
- to readjust the budget forecast and take corrective measures - in this case the management controller is positioned on future actions.

Besides the regular budget control, at the level of each responsibility center, which has a budget, a permanent is exercised by each budget responsible. By means of this permanent control, they have the possibility to influence directly the indicators related to their actions, being able, at any time, to shift immediate actions or to inform general managers, if useful, to ask for immediate assistance.

During the budgetary stage, the objectives of the budgetary control are:

- to substantiate the budgeted level for each structural element of cost;
- to link revenue and expenditure budgets with the budgets with other activities;
- the effects of estimated measures to reduce costs (update of the heating network).

Although the most important and effective issue is budgeting costs, however, the control after their occurrence is necessary for finding existing deficiencies and taking necessary measures, and for budgeting the costs in the next period. Thus, the control objectives include all activities generating costs, aiming at:

- compliance with costs of budgets;
- economic, rational use and according to legal rules of the material, human and financial means;
- to identify deviations, over-regulation of unlawful consumption, to determine causes and responsible persons;
- to develop decisions to correct deviations in order to appropriate actual results related to the ones established by means of strategy and planning.

During such control, every manager, regardless of hierarchical level, should follow, monitor and adjust based on information the costs of the activity in their charge.

2.Flexible budgets - a necessity in budgeting costs of transportation and distribution of thermal energy

The centralized system of heat supply is currently facing technological loss that has increased with the metering of consumers, the transition to a transparent billing system based on measurements exceeding the pace of investment in improving the system. Also, the decrease of consumption, based on industry worsening, housings' disconnection, and economy in the final consumer have led to increased losses by inappropriate exploitation of installed capacity.

The bankruptcy of economic industrial agents has had as consequence the allocation of fixed costs on households and implicitly the use of very high prices, felt, given the national reference price, as major pressures on local budgets, which support the price difference between the actual price and the national reference price. However, from 1 September 2006, the national reference price has been eliminated, being replaced by local prices.

In this context, the cost of transportation and distribution of thermal energy and their surveillance in the budgetary system is particularly important because of the functions that this economic indicator fulfills within the operators of heating systems to optimize decisions. Keeping the potential of providing the services related to the transportation and distribution of thermal energy of an enterprise depends on how they manage to recover by sale, the cost of items produced, and its development depends on the difference between the amounts received from providing services and generated expenses, therefore the budgeting of costs as close to their actual size is essential to conduct a profitable business.

At present, forecasting expenses for the transportation and distribution of thermal energy use static budgets, but this type of activity depends on climatic conditions. The revenue collected by the company will be proportional to the heat sold and consumed by beneficiaries, the budget expenses cannot be budgeted for a single level of activity as the weather conditions are not

known a year before they manifest. Thus, it would necessary the use of flexible budgets that unlike the static budgets schedule results for several levels of activity. They are particularly useful in estimating and analyzing operating expenditure. For example using data from the table below:

FLEXIBLE BUGET

- Lei -

Budgeted elements	Value		
Thermal energy quantity (Gcal)	300.000	350.000	380.000
Variable expenses, out of which:	34.085.568	39.766.496	42.741.922
Expenses for bought thermal energy	32.976.000	38.472.000	41.336.469
Other variable expenses	1.109.568	1.294.496	1.405.453
Fix expenses, put of which:	1.832.728	1.832.728	1.832.728
Material expenses	1.039.968	1.039.968	1.039.968
Salary expenses	792.760	792.760	792.760
Total expenses	35.918.296	41.599.224	44.574.650

The management accounting of companies in the field of transportation and distribution of thermal energy uses currently a static budget by means of which there was planned to be purchased a quantity of 380,000 Gcal of thermal energy in October 2008 but due to climatic conditions, only 306,670 Gcal were bought for which the expenditure amounted to 42,292,138 lei. If flexible budgets were used, the incurred expenditure should be compared in this case, with the first variant of the above budget and would be noticed an overrun of the budgeted amount of 6,373,842 lei, not savings of 2,282,512 lei as indicated by the static budget. Therefore, the flexible budget helps increasing the quality of financial and operational decisions with direct impact on profitability.

The central issue of the production companies in Romania and elsewhere, is that the management budget is not addressed from the perspective of flexible budgets, although they are needed especially for those whose work, respectively returns depend on factors that cannot be roughly determined around a value, but a larger period of time should be taken into account, when drawing up the budget. Thus, although flexible budgets are necessary, they remain, however, a challenge for companies of transportation and distribution of thermal energy.

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